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The Interrelationship of CEO Nationality with Financial Management, Firm Performance, and CEO Compensation

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ABSTRACT

In this exploratory research, and driven by intense interest in media focused attention on the apparently wide differential in pay contrast between US top managers in large corporations versus their non-US top managers, we examined the backgrounds of the highest paid Chief Executive Officers (CEOs) in the United States. Specifically, we investigated the extent to which national origin, which we used as a proxy for cultural background, of CEOs affected salaries received, the way firms were managed and how firms performed. The data for the study was derived from the Forbes 800 CEO compensation data. The data extended from 1991-1997 and included 4,834 observations. Regressions were run to determine the extent to which the birthplace of the CEO affected the salary that the CEO received, along with the capital structure, dividend policy and return on assets of the firm. The results indicated that CEOs with differing nationalities were compensated differently, and operated their firms differently than U.S. born CEOs. The compensation of the CEOs was found to be higher for some groups of foreign born CEOs. Some evidence of differing capital structures was found. However, the results were not significant after incorporating the full set of control variables into the regressions. CEOs from Central and South America paid out larger percentages of firm earnings to owners in the form of dividends than other CEOs. Finally, the study found some evidence to suggest that Central and South America born CEOs, and Australian and New Zealand born CEOs earned a higher return on assets than other CEOs.

INTRODUCTION

Anecdotally, at the very least, United States (US) Chief Executive Officers (CEOs) are alleged to receive excessive compensation relative to CEOs outside the US. One argument put forth for the pay differential has to do with cultural differences. However, is this true, and is it warranted? Do cultural differences lead to different performances among CEOs? These are questions that this research examines in an exploratory way using a novel set of data.

CEO compensation and firm performance have long provided fodder for the press. Appearing both in business magazines and in academic journals, these articles tend to focus on questions such as how much pay CEOs receive; do they provide performance commensurate with their pay; what are the characteristics of their firms; and what are the backgrounds of the CEOs. The study undertaken here analyzed those questions providing two unique aspects. First, instead of a limited or anecdotal set of data points, this study utilized a large dataset that spanned several years. Second, no known previous study has examined how the birthplace of the CEO interrelates with the operations and performance of the firm.

Each year since 1973, Forbes Magazine has published a list containing information about the Chief Executive Officers (CEOs) of large United States Companies. Specifically, Forbes examines compensation for approximately 800 Chief Executive Officers. Forbes collects the data annually and presents it in a mid-year edition of the magazine. The magazine identifies 800 CEOs each year associated with the Forbes 500 listing of largest companies which ranks firms by sales, profits, assets and stock market value. The Forbes Compensation List contains background information about each CEO, the compensation of the CEO, as well as selected firm performance data. One variable included in this study's dataset is the birthplace of the CEO which provided a primary focal point of the research.

Issues such as how CEO birthplace interrelates with the compensation package of the CEO, the capital structure and dividend policy that the CEO will adopt, and the return that the firm provides to the stockholders, made up the goals of this study. We found some evidence to suggest that the national origin of the CEO affected the salary that the CEO earned, as well as the manner in which the CEO operated the firm. Specifically, differences existed in capital structure, dividend policy, and return on assets among CEOs with different birthplaces. To examine these issues, we combined the Forbes data set with the Stock Investor Pro data set available from the American Association of Individual Investors. That latter data set contains detailed financial information on firms. The remainder of this paper is organized as follows. In the next section we discuss the research objectives of this paper. That section is followed by a discussion of the prior literature in this series of papers and the variables used in this study along with corresponding literature. Next, the data utilized in the study is discussed quickly followed by the presentation of some summary statistics. The hypotheses and test results are discussed in combination in the following section. The paper closes with some concluding comments and a discussion of the limitations of the study.

RESEARCH OBJECTIVES

In this paper we examine how CEO's from different cultures, as proxied by their birthplace, differ from each other with regard to how they are compensated, how they manage their firms, and the return that they produce for their stockholders. To the extent that cultural background affects the way individuals manage firms, a CEO with one, or another, cultural background might be most appropriate for a given firm. Thus, the managerial implications of this work hope to improve our understanding of the interaction between CEO cultural background, managerial decision making and the financial performance of the firm. More specifically, we wish to document the extent to which CEO's from various nationalities manage large U.S. firms differently. We wish to determine differences in compensation based on the birthplace of the CEO after controlling for a number of demographic variables. We examine different managerial behaviors of CEO's by examining the dividend policy of the firm and the capital structure of the firms that they manage. CEO's, along with their boards of directors, have direct influence over these two variables. Evidence that individuals with different cultural backgrounds manage these important issues differently would suggest an optimal cultural background for the CEO. Finally, we examine the returns that are provided to stockholders by CEO's having differing cultural backgrounds.

LITERATURE REVIEW

Prior Literature in this Research Stream

A plethora of work exists examining demographic characteristics of firm CEOs and the performance of the firms they manage. One can dissect the literature review into two parts. First, the authors discuss their own previous research on the topic. Secondly, we briefly examine additional work, in conjunction with a discussion of the variables utilized in the paper. The first paper in this series, by Jalbert, Rao and Jalbert (2002) examined the relationships among compensation, firm performance, and the university where the CEO earned his/her degree(s). The results indicated that CEOs of large firms generally came from a premier group of higher education institutions. Jalbert, et al., (2002) found a significant relationship

between the educational background of the CEO and the total compensation that the CEO earned after controlling for industry, firm size and other mitigating factors. Interestingly, the results indicated that CEOs who did not have a degree earned more than those with a college degree. Jalbert, et al., (2002) found little evidence of a relationship between school attended and CEO compensation. The age of the CEO as well as the number of years that the individual had been the CEO were found to have a positive impact on CEO compensation. That study also found a negative relationship between the number of years that the individual had been with the firm and the compensation that the CEO earned indicating that salary compression, a well known phenomena in academia, also occurs at the highest levels of the corporate world. Finally, possession of a degree as well as degree pedigree affected ROA and Tobin's Q.

Jalbert, Jalbert and Perrina (2004), examined the specific degrees earned by CEOs as they related to the ages when individuals started working for the firms, how long they worked for the firms before they became CEOs, the age when the individual became CEOs, the salaries individually earned as CEOs and other variables. The results indicated that the total compensation earned as CEO depended upon the undergraduate and graduate degrees held by the individual. Those holding differing degrees were found to have earned their undergraduate and graduate degrees at different ages; had been with the firms for differing numbers of years; started working for the firms at different ages; became the CEO at differing ages; and were with the firms for differing amounts of time before becoming the CEO.

Jalbert and Jalbert (2005), examined how founding CEOs differed from non-founding CEOs. They identified significant differences between the total compensation received by founding and non-founding CEOs. The compensation differentials varied based upon the undergraduate and graduate degrees held. When comparing founders to non-founders, the study found significant differences in the ages of the CEOs, the ages when the individuals received their undergraduate and graduate degrees, the ages at which they started working for the firm, and the ages at which they became CEO. Many non-founding CEOs started working for the firm that they ultimately managed in the year prior to earning their college degrees. However, founding CEOs were more likely to finish their degrees before becoming the CEO of the firms they founded. Few individuals earned either their undergraduate or graduate degrees after taking on the role of CEO.

Variables

Dependent Variables

This section discusses each of the variables used in the analyses. First the dependent variables are presented and discussed. A discussion of the independent variables follows in the next subsection. The first dependent variable was the total compensation provided by the firm to the CEO (TCOMP). Forbes Magazine provided data on this variable. We did not break down the variable into its subcomponents (stock options, base pay, benefits and so forth). In instances where the data appeared by component, we summed these components to arrive at the total compensation of the CEO. Murphy (2003) and Murphy and Hall (2002), among others, have documented the importance of differentiating between the different components of compensation. Unfortunately, the nature of the Forbes dataset did not permit such an analysis in this case. While Forbes did break down the compensation into its components, it did not do so in a consistent fashion across years. Thus when analyzing the data across multiple years, as this paper does, it is not appropriate to use the data components. In this paper, notwithstanding the just noted limitation, we did at least extend the compensation literature by examining the effect of birthplace on total compensation.

Long term debt to equity (LTDE) represented the second dependent variable. We obtained data on the long term debt to equity ratio from Stock Investor Pro. Modigliani and Miller (1958) wrote the seminal article on capital structure. Since then, many articles have extended this line of literature including Modigliani and Miller (1963); Miller (1977); DeAngelo and Masulis (1980); and Jalbert (2002).

In general, this line of research has found mixed results concerning the extent to which an optimal capital structure exists and the extent to which it impacts the value of the firm. One line of literature suggests that the structure of CEO compensation should be a function of firm risk, leverage, size, and growth opportunities of the firm (Aggarwal and Samwick, 1999; and Prendergast, 2002). John and John (1993) found a negative relationship between pay-performance sensitivity and leverage. In this paper, we extend the capital structure stream of literature by examining whether CEO birthplace is interrelated with the capital structure adopted by the firm.

The dividend payout ratio of the firm (PAYOT) made up the third dependent variable. We obtained data on the dividend payout ratio from Stock Investor Pro. Like the capital structure literature, the dividend policy literature is voluminous. Miller and Modigliani (1961) proposed an irrelevance theory suggesting that in an idealized world, dividends do not affect the value of the firm. Many authors have extended this work, with some arguing the irrelevance of dividend policy to the value of the firm and others arguing the enhancement of firm value by following a particular dividend policy. Specifically, one series of literature focused on the roles of transaction costs in determining and optimal dividend policy (Bhide, 1993). Other lines of research focus on the role of dividends in monitoring firm managers (Easterbrook, 1984). Yet other research explores the information content of dividends (Lintner, 1956; Fama and Babiak, 1968 and Leland and Pyle, 1977). In this paper, we extend this line of research by examining the extent to which the CEO birthplace affected firm dividend policies.

Return on assets (ROA) of the firm constituted the final dependent variable. A great deal of research has examined the relationship between CEO compensation and various performance measures such as ROA. Jalbert, Rao and Jalbert (2002) found that founders provided a seven percent higher ROA on average than other CEOs. Fahlengrach (2005) confirmed this finding in that founder CEO's achieved an 11% higher return to investors than non-founders. Thomas and Peyrefitte (1996) examined U.S. based multinational firms finding that leadership traits along with environmental and organizational factors affected performance of multinational firms. Specific leadership traits identified included age, tenure with the company, position tenure, and education. Older CEOs were found to have a positive impact on firm performance, after controlling for the affects of industry. Position tenure was found to be negatively related to firm performance.

Independent Variables

Next, the focus of the discussion turned to independent variables we incorporated into our analyses. We primarily focused on how CEO birthplace related to each dependent variable identified above. Data on the birthplace of the CEO was obtained from Forbes Magazine. Kato and Rockel (1992) found significant differences between U.S. firm managers and Japanese firm managers indicating the impact that culture can have on managerial behavior. Wolfe Morrison, and Milliken (2004) described how the cultural background of a firms top management team can affect the behavior of the manager and the approach that the manager takes to operating a business. In this paper, we examined how the cultural backgrounds of the CEOs affected the manner with which the firms were managed, the compensation that CEOs received, and the performance of the firms they managed.

A second independent variable was the total assets of the firm (ASSETS). The relationship between firm size and a variety of firm characteristics and performance issues are well established. Identification of the size effect is generally attributed to Banz (1981) and Reinganum (1981). The findings indicate that smaller New York Stock Exchange listed firms have higher risk adjusted returns than their larger counterparts. Further, a number of papers documented the relationship between firm size and CEO compensation (see Jalbert, Rao and Jalbert, 2002; Gibbons and Murphy, 1992; Baker and Murphy, 1988). Baker and Hall (2002) showed that the optimal CEO compensation packages depended upon firm size. In this paper, we extend the literature by showing how the cultural background of the CEO interacted with

the size of the firm and other variables to affect firm performance, capital structure, dividend policy and compensation.

Another independent variable incorporated into the analysis was the percent of the firm owned by the CEO (POWN). Jensen and Meckling (1976) wrote the seminal article on the relationship between the proportion of the firm owned by an employee and his/her motivations. They argued that utility maximizing managers should be expected to act in their own best interests. Moreover, managers' best interests were not always consistent with the owners' best interests. Jensen and Meckling (1976) argued that increasing the proportion of the firm owned by managers aligned the managers' interests with those of the shareholders. Fama (1980) on the other hand argued that a properly functioning labor market for managers served to minimize agency problems. In this paper, we further examined the extent to which ownership structure affected CEO compensation, ROA, capital structure and dividend policy.

We included a number of additional demographic variables related to the CEOs in the analysis. A substantial body of literature exists regarding the effects of varying CEO characteristics on the firm and how the firm is managed. Wiersema and Bantel (1992), established that demographic attributes of CEOs affected firm performance and the firm's business decisions. Variables found to have an effect included youth, tenure, educational level, and functional background. To control for these effects, we incorporated a series of independent variables into the analysis. The first demographic variable was the age of the CEO (AGE). A number of studies have documented the importance of CEO age in determining compensation (Strober, 1990) as well as how the CEO manages the firm. Lucier, Schuyt, and Spiegel (2003) found that individuals average 50 years of age when promoted to the CEO position. Wesphal and Zajac (1995) found a negative relationship between CEO age and attitude toward risk. A study by Stevens, Beyer & Trice (1978) indicated that younger, or less mature, CEOs were more aggressive than their elder counterparts. Specifically, that study found younger CEOs were more innovative and would seek out more risk and growth. Berry, Bisjak, Lemmon, and Naveen (2000) examined CEO turnover and firm diversification using Forbes 1991 data. They found that average CEO age varied from 56.2 to 57.3 years.

A second demographic variable was the number of years the individual had been with the firm (YRFRM). Barro and Barro (1990) found that the pay-performance sensitivity of bank CEOs diminished with CEO experience. Datta and Guthrie (1994) suggested that industry specific experience was essential for CEOs. Kato and Rockel (1992b) completed a comparative study of Japanese versus U.S. firms. They found that CEOs of Japanese firms tended to be more experienced than their US firm counterparts. Specifically, they found that 60 percent of Japanese CEOs had 15 or more years of experience with the firm prior to appointment as the CEO, compared to 50 percent of U.S. firm CEOs. In Japanese (U.S.) firms, the individual accepted the CEO position at age 56 (49). Japanese CEOs had longer tenures (27 years) with their firms than their U.S. counterparts (20 years). Brick, Palmon and Wald (2003) found that age has an insignificant role in explaining CEO compensation, but experience was positively related to compensation. Closely related to the number of years the individual had been with the firm was the number of years that the individual had been the CEO (YRCEO). The evidence suggested that CEO tenure was changing over time. Lucier, Schuyt, and Spiegel (2003) found a reduction of CEO tenure between 1995 and 2001 of 2.2 years. Palia and Ravid (2002) found that, on average, CEOs stayed in office for 8.76 years. Murphy and Zimmerman (1993) find that CEOs tended to leave their appointments at ages 64 and 65.

A final demographic variable included in the analyses was a dummy variable indicating whether the CEO was the founder of the firm (FNDER). Differences between firm founding CEOs and other CEOs are well established. Fahlenbrach (2004) found that firms managed by a founder had higher capital expenditures, made more focused mergers and acquisitions, and provided positive abnormal returns to their investors. Jalbert, Rao, and Jalbert (2002) and Jalbert and Jalbert (2005) also found a number of differences between founding CEOs and other CEOs. Most notably, they found that founding CEOs

received higher levels of compensation, but also produced higher returns than other CEOs. Others have argued that founders earn less than their non-founder counterparts, particularly when excluding stock returns from the analysis. Some founders have even been known to take a token $1 in annual compensation (Plitch, 2005**)**. The findings in this paper extend the literature by examining the extent to which cultural background affects the identified differences between founders and non-founders.

It is well known that firms in different industries operate differently and compensate their CEO's differently. Roach and Goedde (2003) examined CEO compensation in the pharmaceutical industry. A number of articles have examined compensation in the banking industry (see John, Saunders and Senbet, 2000; and Hermalin and Wallace, 2001). Barragato (2002) examined executive compensation in the hospital industry. Each of these studies noted peculiarities of executive compensation based on industry. Joskow, Rose and Wolfram (1996) show that political and regulatory constraints have an effect on CEO compensation in utilities industries. It is also well established that firms in different industries have different dividend policies and capital structures as is noted by Hamada (1972), and Harris and Raviv (1991). Smith and Watts (1992) Gaver and Gaver (1993) and Barclay, Smith and Watts (1995) provide discussions of dividend policy as it relates to industry. To control for industry effects, the firms were classified by industry using two-digit SIC codes. The data contained firms having twelve different two-digit SIC codes. A dummy variable was created for each SIC code (*IND1-IND12*).

Hypotheses Introduced

To extend the lines of literature discussed here, we formulated four hypotheses. First, the total compensation will be different for CEO's with different birthplaces. Second, the capital structure if the firm is determined in part by the birthplace of the CEO. Third that the dividend policy of the firm is determined in part by the birthplace of the CEO and finally that the Return on Assets of the firm is determined in part by the birthplace of the CEO. These hypotheses are fully developed and specified in the Hypotheses and Results section that appears later.

DATA

Forbes Magazine provided the Forbes CEO Compensation List from 1992-2003. Data prior to 1992 was no longer available from Forbes Magazine in electronic format. In order to complete the dataset, the authors created an electronic format of the Forbes 800 Compensation List from hard copies of the magazine for years prior to 1992. The combined dataset contains 25,229 annual observations spanning the years 1972 to 2002. The variables contained in the dataset vary by year. Individual years contain as many as 30 variables. Between the years 1975 and 1982 and again between the years 1986 and 1997, Forbes included variables in their dataset indicating individual birthplaces. Of interest in this study was how CEO birthplace related to other demographic variables associated with the CEO and the extent to which CEO birthplace affected the performance of the CEO. As such, data limitations allowed only for the inclusion of 1975 through 1997, excluding 1983-1985. While analysis of more recent data would have been optimal, such data was not available from Forbes Magazine or other sources.

We obtained firm financial data from the American Association of Individual Investors through their Stock Investor Pro (SIP) product. Annual data from SIP was available for the years between 1991 and 2002. Analysis of the data prior to 1991 would have been optimal. However, SIP data was not available to the authors prior to 1991. We merged the SIP data with the Forbes data for our analysis. Thus the final data set contained data from 1991-1997 and included 4,834 total annual observations, noting the congruent time periods of the Forbes and SIP data. Further limiting the data, Forbes Magazine did not report the same variables each year. For instance, the percentage of the firm owned by the CEO was available for the time period from 1991-1996. As such, we reduced by one year those analyses incorporating this variable (e.g., did not include 1997).

RESULTS – SUMMARY STATISTICS

The analysis begins by presenting summary data of the CEO background. Table 1, Panel A, provides data regarding the number of annual observations by CEOs from each country. The first data column lists the entire data set, from 1975 through 1997, including 16,032 observations. The second data column lists the reduced data set from 1991-1997. As expected, the preponderance of CEOs were born in the U.S. The 1975-1997 data set shows 91.27 percent (16,032/17,565 = 91.27%) of CEOs born in the U.S. When analyzing the reduced data set, 92.97 percent (4,494/4,834) of CEOs were U.S. born. The most common foreign origins included Canada, England, Germany and France. The number of observations was limited for many countries. To accommodate the analysis in light of these limited numbers, we organized the data into six regions and a category where the birthplace was unknown. Panel B of Table 1 presents the resulting number of observations by region. The regionally categorized data were utilized for all remaining analyses in the paper.

Table 1: Birthplace by Country

Birth Place	Observations 1975-1997	Observations 1991-1997	Birth Place	Observations 1975-1997	Observations 1991-1997
Panel A: Country of Birth					
USA	16,032	4,494	Israel	23	0
Argentina	5	0	Italy	37	9
Australia	29	11	Japan	45	13
Austria	10	1	Lebanon	8	7
Belgium	6	3	Mexico	6	1
Bulgaria	10	5	New Zealand	3	0
Canada	150	75	Norway	2	0
China	46	11	Palestine	4	0
Czech Rep.	13	8	Pakistan	6	1
Cuba	19	8	Peru	4	0
Dutch East Indies	1	1	Poland	11	0
Egypt	7	7	Russia	8	0
England	119	40	Scotland	17	6
Fiji	6	0	South Africa	15	6
France	55	22	Sweden	4	3
Germany	76	28	Taiwan	1	1
Greece	17	7	The Netherlands	12	0
Hong Kong	1	0	Trinidad	4	0
Hungary	14	8	Turkey	11	0
India	13	12	Venezuela	1	1
Iran	3	3	Yugoslavia	8	6
Ireland	17	7	Unknown	686	29
			Total Foreign Born	847	311
			Total Observations	17,565	4,834
Panel B: By Region					
North America	16,182	4,569	Asia	107	38
Central and South America	39	10	Africa & Middle East	77	24
Australia and New Zealand	38	11	Unknown	686	29
Europe	436	153			

Next, we examined the change in the number of foreign born CEOs by year. Panel A of Table 2 examines the full dataset from 1975 through 1997. The data provided some evidence of an increase in the number of foreign born CEOs. In 1975, the percentage of foreign born CEOs was 4.17 while in 1997 it was 6.77. The number of foreign born CEOs reached a high in 1996 of 7.59 percent. Panel B presents the reduced data set from 1991-1997. Again, there was some evidence to indicate an increasing number of foreign born CEOs. The percentage of foreign born CEOs increased from 4.94 to 7.67 between 1991 and 1997. However, the percentage dropped to 6.70 in 1997.

Table 2: Number of Foreign CEOs by year

Year	U.S. born	Foreign Born	Unknown	Foreign Born %	Year	U.S. born	Foreign Born	Unknown	Foreign Born %
Panel A: 1975-1997, Full Dataset									
1975	781	34	4	4.17%	1986	753	35	8	4.44%
1976	764	31	1	3.90%	1987	753	41	3	5.16%
1977	758	33	2	4.17%	1988	751	45	2	5.65%
1978	763	35	3	4.39%	1989	762	36	1	4.51%
1979	764	32	3	4.02%	1990	755	41	2	5.15%
1980	781	34	1	4.17%	1991	755	41	3	5.15%
1981	762	32	3	4.03%	1992	750	45	3	5.66%
1982	774	33	1	4.09%	1993	744	48	6	6.06%
1983	N/A	N/A	N/A	N/A	1994	745	47	6	5.93%
1984	N/A	N/A	N/A	N/A	1995	737	56	4	7.06%
1985	N/A	N/A	N/A	N/A	1996	731	60	6	7.59%
					1997	730	53	10	6.77%
Panel B: 1991-1997, Reduced Data									
1991	596	31	1	4.94	1994	623	41	5	6.17
1992	605	37	2	5.76	1995	671	52	4	7.19
1993	603	42	4	6.51	1996	686	57	4	7.67
					1997	710	51	9	6.70

Table 3 provides summary statistics for the variables utilized in the analyses. To analyze the data by birthplace, a dummy variable was created for each of the regions identified in Panel B of Table 1 resulting in a total of seven dummy variables. The variable BP1=1 if the CEO was born in North America, 0 if elsewhere. BP2=1 if the CEO was born in Central or South America; BP3=1 if the CEO was born in Australia or New Zealand; BP4=1 if the CEO was born in Europe; BP5=1 if the CEO was born in Asia; BP6= 1 if the CEO was born in Africa or the Middle East; and BP7=1 if the birthplace of the CEO was unknown. The variables analyzed were POWN, AGE, ASSETS, ROA,

Table 3: Mean Variable Levels by CEO Birthplace

	All Data	BP1	BP2	BP3	BP4	BP5	BP6	BP7
AGE	56.47 6.63 4834	56.53 6.62 4569	55.90 9.10 10	56.55 6.51 153	54.05 6.58 38	55.21 6.06 24	59.36 3.75 11	51.34 6.49 29
YRFRM	22.12 12.38 4832	22.28 12.36 4568	28.50 15.95 10	21.52 12.10 153	19.68 10.44 38	16.13 12.76 24	12.18 9.04 11	9.89 9.40 28
POWN	2.038 5.802 4044	2.082 5.88 3833	0.567 0.300 9	0.980 3.77 127	2.076 2.642 28	0.238 0.249 19	0.098 0.077 10	3.879 8.535 18
YRCEO	8.21 8.07 4834	8.24 8.10 4569	8.80 6.37 10	8.33 7.79 153	9.11 8.00 38	3.71 2.77 24	3.64 1.80 11	6.00 8.46 29
FNDER	0.0896 0.286 4812	0.0868 0.282 4549	0.1000 0.316 10	0.1053 0.308 152	0.316 0.471 38	0.000 0.000 23	0.000 0.000 11	0.241 0.435 29
ASSETS	13,370 37,130 4834	13,352 37,021 4569	8,671 5,983 10	15,885 44,917 153	16,426 46,654 38	7,356 7,134 24	22,769 25,057 11	1,910 1,618 29
PAYOT	43.56 76.53 4175	44.17 77.25 3950	54.00 61.13 10	34.01 72.84 136	19.92 17.87 33	57.58 56.61 17	47.96 9.63 9	7.28 12.59 20
ROA	4.55 13.66 4627	4.49 13.78 4369	11.71 8.94 10	6.58 6.45 149	4.28 6.02 38	3.56 6.85 22	8.91 5.19 11	-0.56 28.12 28
LTDE	72.99 99.34 4499	73.85 99.81 4249	18.83 11.76 10	67.24 110.48 148	32.30 36.56 37	77.45 73.94 19	58.80 32.73 11	46.88 44.85 25
TCOMP	3,194,648 7,790,847 4795	3,085,024 7,474,938 4356	8,760,000 6,260,113 10	5,084,191 12,429,706 152	4,010,368 6,386,415 38	7,832,917 2,0815,704 24	4,397,091 4,030,650 11	3,146,792 5,925,101 24

YRCEO, YRFRM, FNDER, PAYOT, LTDE, and TCOMP, each as defined earlier. The first figure in each cell is the mean, the second figure is the standard deviation, and the third is the number of observations utilized in the computations. The first column in Table 3 provides the statistics for the entire dataset. The remaining columns analyze the data by the birthplace region of the CEO. One can note large differences in the values of the variables based on birthplace. Particularly noteworthy were large differences in the number of years with the firm, assets under management, dividend payout policy, amount of long term debt and CEO compensation.

The analyses now turn to an examination of the extent to which the differences identified thus far explain the variance in important firm variables. Table 4 presents the Pearson correlation coefficients between the variables utilized in the analyses. The first figure in each cell is the Pearson correlation coefficient, the second is the p-value, and the third is the number of observations. ***, ** and * indicate significance at the 1, 5 and 10 percent levels, respectively. The results indicated that the null hypotheses of no correlation were rejected at the one percent level for most of the variable combinations and at the 10 percent level for several other combinations. In general the correlations were relatively low with only a few correlations exceeding 0.10. The exceptions to this rule were as one might expect. YRCEO was moderately correlated with CEOAGE, YRFRM, POWN and FNDER. FNDER was moderately correlated with PAYOT, CEOAGE, POWN and YRCEO. LTDE was moderately correlated with the ASSETS and ROA.

Table 4: Correlation Analysis

	AGE	YRFRM	POWN	YRCEO	FNDER	ASSETS	PAYOT	ROA	LTDE
YRFRM	0.420 0.0001*** 4832								
POWN	0.0407 0.0096*** 4044	0.0655 0.0001*** 4042							
YRCEO	0.401 0.0001*** 4834	0.385 0.0001*** 4832	0.421 0.0001*** 4044						
FNDER	0.182 0.2063 4812	0.0533 0.0002*** 4810	0.442 0.0001*** 4022	0.4633 0.0001*** 4834					
ASSETS	0.0220 0.1268 4834	0.0721 0.0001*** 4832	-0.083 0.0001*** 4044	-0.0467 0.0012*** 4834	-0.0817 0.0001*** 4159				
PAYOT	0.0438 0.0046*** 4175	0.0700 0.0001*** 4173	-0.106 0.0001*** 3481	-0.069 0.0001*** 4175	-0.1176 0.0001*** 4159	-0.006 0.678 4175			
ROA	-0.0145 0.324 4627	0.0063 0.6677 4625	0.0757 0.0001*** 3855	0.0207 0.159 4627	0.0254 0.0845* 4606	-0.062 0.0001*** 4627	-0.170 0.0001*** 4097		
LTDE	0.0193 0.195 4499	-0.0003 0.9821 4497	-0.049 0.0024*** 3759	-0.073 0.0001*** 4499	-0.072 0.0001*** 4478	0.1932 0.0001*** 4499	0.0633 0.0001*** 4021	-0.229 0.0001*** 4498	
TCOMP	0.027 0.063* 4795	-0.024 0.094* 4793	0.028 0.075* 4036	0.087 0.0001*** 4795	0.083 0.0001*** 4773	0.108 0.0001*** 4795	-0.054 0.0005*** 4149	0.0714 0.0001*** 4591	-0.0001 0.9956 4466

RESULTS – HYPOTHESES AND TESTING

Harking back to the section "Hypotheses Introduced", the analyses begin by examining how total compensation differed based on the birthplace of the CEO using regression analysis techniques. We postulated the following null and alternative hypotheses.

Ho_1: The Total Compensation of the CEO is not different for CEO's of varying birthplaces
Ha_1: The Total Compensation of the CEO will be different depending upon the Birthplace of the CEO

To test this hypothesis, controlling for the effects of the independent variables noted above, the following regression was run. Various versions of the regression were estimated including regressing each of the independent variables individually on the dependent variable, as well as running combinations of variables.

$$TCOMP = \alpha + \beta_1(BP2) + \beta_2(BP3) + \beta_3(BP4) + \beta_4(BP5) + \beta_5(BP6) + \beta_6(BP7) + \beta_7(POWN) + \beta_8(AGE) + \beta_9(ASSETS) + \beta_{10}(ROA) + \beta_{11}(YRCEO) + \beta_{12}(YRFRM) + \beta_{13}(FNDER) + \beta_{14\text{-}24}(IND1\text{-}11)$$

Table 5 presents the results of the tests of Hypothesis 1. In each of the regressions in Table 5, the dependent variable was the total compensation of the CEO. The first regression involved regressing the birthplace dummy variables on the total compensation of the CEO. The birthplace dummy variables were defined by region as noted earlier in the article. We completed the regressions by leaving out the dummy variable associated with North American born CEOs. The results clearly indicated differences in compensation based on the location of birth. Two of the coefficients were positive and significant, indicating that the CEOs from these regions earned more than their North American born counterparts. Specifically, CEOs from Central and South America, Asia and Australia and New Zealand earned substantially more than their U.S. counterparts. Central and South American born CEOs earned on average in excess of $5 million more per year than their U.S. counterparts!

The next series of regressions involved independently regressing each control variable, except the industry dummy variables, on total compensation. In each of the single regressions, the control variable exhibited a significant impact on total compensation. In the first regression, the percentage of the firm owned by the CEO was regressed on total compensation. The results indicated that CEOs who owned larger portions of their firms received higher total compensation, with each percent of additional ownership resulting in $32,508 of additional compensation. AGE, ROA, YRCEO and YRFRM were all significantly positively related to compensation. Founders earned $2,263,953 more than their non-founder counterparts. The coefficient on the assets variable of 22.69 indicated that managers earned $22.69 per year more for each million dollars under management. While this might not seem like a large amount of money, it can become substantial. For example, a manager of a firm with $300 billion of assets would receive a size based salary element of more than $6 million per year.

To complete the analysis of compensation we combined the control variables, including industry variables, to determine the overall explanatory power. The indicator "I" was set to 1 when the industry variables were incorporated into the regression but the parameters are not reported here. The results were similar to the individual regressions with two exceptions. The variable for Asian born CEOs was no longer significant after the data was adjusted for the control variables. In addition, the age of the CEO was no longer significant in explaining total compensation when the control variables were included in the regression. In each regression in the analysis, the F-value significantly differed from zero. Unfortunately, these variables did not explain a great deal of the variation in total CEO compensation, as the largest R^2 was only 0.0483. From a managerial perspective, in light of the results presented here, compensation boards should be aware of the likely compensation differences that CEO's with differing cultural backgrounds might expect.

In the next analysis, we examined if the birthplace of the CEO affected the capital structure that the firm would ultimately adopt.

Ho_2: The Capital Structure is not affected by the birthplace of the CEO.
Ha_2: The Capital Structure is determined in part by the birthplace of the CEO.

To test the hypotheses, we regressed a number of independent variables on the long term debt to equity ratios of the firms. The regression is formulated in a manner similar to the previous regression equation as follows. Again, various versions of the regression were run including regressing each of the independent variables individually on the dependent variable, as well as running combinations of variables.

$$LTDE = \alpha + \beta_1(BP2) + \beta_2(BP3) + \beta_3(BP4) + \beta_4(BP5) + \beta_5(BP6) + \beta_6(BP7) + \beta_7(POWN) + \beta_8(AGE) + \beta_9(ASSETS) + \beta_{10}(ROA) + \beta_{11}(YRCEO) + \beta_{12}(YRFRM) + \beta_{13}(FNDER) + \beta_{14\text{-}24}(IND1\text{-}11)$$

Table 6 presents the results of the test of Hypothesis 2. Interestingly, European and Central and South American born CEOs were found to use less debt in their capital structures than U.S. born CEOs. However, these results did not hold once the control variables were included in the regressions. Thus the overall evidence would seem to suggest that capital structure is not driven by the cultural background of the CEO.

While the birthplace of the CEO was the primary variable of interest in this paper, the results of the tests on the control variables provided considerable insight. The asset level of the firm had a positive impact on the amount of debt that the firm used. POWN, ROA, YRCEO each had a negative impact on the amount of debt that the firm used. Interestingly, firm founders were found to use substantially less debt, 25 percent of the capital structure, than their non-founding counterparts. It is important to note that possibly the founder variable was serving as a proxy variable for the age of the firm. On average, one would expect that firms having a founder CEO would be younger than firms having a non-founder CEO. If this is the case, the results here may be an indication that the capital structure of the firm was a function of the age of the firm rather than of type of CEO (founder vs. non-founder). Unfortunately, data on firm age was not available for this study.

The analysis continues by examining the dividend payout ratio of the firm. Dividend policy has long been an issue in the literature as noted earlier. In this section, we examine the extent to which the dividend payout ratio of the firm varied by the birthplace of the CEO. We forwarded the following hypotheses:

Ho_3: The dividend payout ratio is not affected by the birthplace of the CEO.
Ha_3: The dividend payout ratio is determined in part by the birthplace of the CEO.

To test the hypotheses, we regressed a number of independent variables on the dividend payout ratio of the firm. The regression, run in various versions is formulated in a manner similar to the previous regression regressions as follows

$$DPO = \alpha + \beta_1(BP2) + \beta_2(BP3) + \beta_3(BP4) + \beta_4(BP5) + \beta_5(BP6) + \beta_6(BP7) + \beta_7(POWN) + \beta_8(AGE) + \beta_9(ASSETS) + \beta_{10}(ROA) + \beta_{11}(YRCEO) + \beta_{12}(YRFRM) + \beta_{13}(FNDER) + \beta_{14\text{-}24}(IND1\text{-}11)$$

The results of the test of Hypothesis 3, presented in Table 7, were mixed. When not including the control variables in the regression, European born CEOs and those with an unknown birthplace were found to have lower dividend payout ratios than U.S. born CEOs. When the control variables were

included in the regression, the results were substantially different. In the full regression, incorporating all control variables, Central and South American CEOs had significantly higher payout ratios. The control variables were also of interest. The signs of the regression coefficients indicated a negative relationship between the dividend payout ratio (the dependent variable) and several of the independent variables (percent ownership by the CEO, ROA, YRCEO, and FOUNDER). These results held in both the single and multiple regressions. A positive relationship was found between the AGE and the payout ratio when unadjusted for the control variables. This relationship was no longer significant after including control variables in the regression. A positive relationship existed between the YRFRM and the payout ratio both in the single regression and when including the control variables in the regression. Boards of Directors should be aware of the pre-disposition of individuals from certain backgrounds to adopt a certain dividend policy, particularly if such a policy is not consistent with the Board of Directors' preferred strategy.

Finally, we examined the return on assets provided by managers of differing national origins. We postulated the following hypothesis:

Ho_4: The return on assets of the firm is not affected by the birthplace of the CEO.
Ha_4: The return on assets of the firm is determined in part by the birthplace of the CEO.

To test the hypotheses, we regressed a number of independent variables on the return on assets of the firm. The regression, run in various versions is formulated in a manner similar to the previous regression regressions as follows

$$ROA = \alpha + \beta_1(BP2) + \beta_2(BP3) + \beta_3(BP4) + \beta_4(BP5) + \beta_5(BP6) + \beta_6(BP7) + \beta_7(POWN) + \beta_8(AGE) + \beta_9(ASSETS) + \beta_{10}(ROA) + \beta_{11}(YRCEO) + \beta_{12}(YRFRM) + \beta_{13}(FNDER) + \beta_{14\text{-}24}(IND1\text{-}11)$$

Table 8 presents the results of the Hypotheses 4 tests. The first series of regressions involved regressing the control variables on the ROA of the firm. The return on assets was positively explained by the percentage ownership by the CEO, and the founder variable. These findings indicated that the higher the level of ownership by the CEO, the higher the return on assets that the firm earned. Founders earned a higher return for their firms than non-founder CEOs. The dollars of assets under management and the dividend payout ratio were negatively related to the return on assets of the firm. The CEO age, or years as the CEO, were not significant in explaining ROA. Next, a multiple regression was run with mixed findings. Central and South American born CEOs earned a higher return on assets than their U.S. born counterparts. Those with a birth place classified as "other" produced a lower ROA than other CEOs. Finally, we regressed both the birthplace variables and the control variables, including the industry control variables, on the ROA of the firm. The first regression included the percentage ownership of the CEO and the dividend payout ratio. The second regression eliminated these two variables. In the first of these regressions, the only birthplace variable that remained significant was the Central and South American CEOs. The control variables were found to generally yield the same significant results as in the simple regressions. When the percent ownership and payout variables were incorporated into the regression, the only birthplace variable that remained significant was the unknown birthplace variable. Thus, from a managerial perspective, the evidence presented here suggests that Boards of Directors' need not be overly concerned about hiring a manager from a certain background in an effort to produce higher returns for investors.

CONCLUDING COMMENTS

In this paper we examined the ways in which the birthplace of CEOs interrelated with the operations of firms. Specifically, we examined how the compensation of the CEO, the capital structure of the firm, the dividend policy of the firm, and the return on assets of the firm differed based on CEO birthplace. We controlled for a number of variables including the percentage of the firm owned by the CEO, the age of

the CEO, the dollars of assets under management, the dividend payout ratio, the years that the individual had been with the firm, the years that the individual had been the CEO of the firm, whether the individual was the founder of the firm, the size of the firm, and the industry in which the firm operated. The evidence indicated that the birthplace of the CEO was related to differences in these variables. The compensation of the CEO was found to be higher for some groups of foreign born CEOs. Some evidence of differing capital structures was present, but the results were not significant when the full set of control variables were incorporated into the regressions.

Table 5: Dependent Variable Total Compensation

Intercept/N	BP2	BP3	BP4	PB5	BP6	BP7	POWN	AGE	ASSETS	ROA	YRCEO	YRFRM	FNDER	I	F/R2
3,085,024 4795	5,674,976 2.31**	1,999,167 3.12***	925,344 0.73	4,747,893 2.98***	1.312,067 0.56	61,768 0.04								0	4.04*** 0.005
2,784,771 4036							32,508 1.78*							0	3.17* 0.0008
1,408,010 4795								31,616 1.86*						0	3.46* 0.0007
2890314 4795									22.63 7.54***					0	56.87*** 0.0117
2997833 4591										40385 4.85***				0	23.51*** 0.0051
2500473 4795											83955 6.05***			0	36.56*** 0.0076
3533090 4793												-15321 -1.68*		0	2.81* 0.0006
2994889 4773													2,263,953 5.75***	0	33.06*** 0.0069
334891 3824	5290889 2.51**	1723956 2.98***	459753 0.38	1452144 0.92	-708460 -0.35	-91731 0.06	-37841 -1.79*	15297 0.83	22.81 7.08***	44982 4.44***	88404 5.05***	-42278 -4.35***	776195 1.73*	1	8.07*** 0.0485
1123068 3824	5264820 2.50**	1727562 2.98***	442612 0.37	1467490 0.93	-657285 -0.33	-90491 -0.06	-39358 -1.87*		-40202 -4.28***	44705 4.42***	93555 5.71***	-40202 -4.28***	742128 1.66*	1	8.39*** 0.0483

Table 6: Dependent Variable Long Term Debt to Equity

Intercept/N	BP2	BP3	BP4	PB5	BP6	BP7	POWN	AGE	ASSETS	ROA	YRCEO	YRFRM	FNDER	I	F/R2
73.85 4499	-55.01 -1.75*	-6.61 -0.80	-41.55 -2.53**	3.60 0.16	-15.05 -0.50	-26.97 -1.35								0	2.00* 0.0027
74.37 3759							-0.842 3.03***							0	9.20 0.0024
56.71 4499								0.28822 1.30						0	1.68 0.0004
65.78 4499									0.0005 12.21***					0	174.38*** 0.0373
86.42 4498										-2.74 -15.76***				0	248.32*** 0.0523
80.47 4499											-0.899 -4.93***			0	24.31*** 0.0054
73.06 4497												-0.0027 -0.02		0	0.00 0.000
75.12 4478													-25.08 -4.83***	0	23.37*** 0.0052
133.09 3735	-38.88 -1.27	4.92 0.58	-16.17 -0.93	11.29 0.46	-35.54 -1.21	-9.16 -0.39	0.603 2.01**	-0.242 -0.90	0.0007 14.20***	-2.77 -13.71***	-0.311 -1.22	-0.133 -0.93	1.20 0.18	1	28.87*** 0.1574

BP1=1 if Birthplace = North America, 0 otherwise, BP2=1 if Birthplace = Central and South America, 0 otherwise, BP3=1 if Birthplace = Australia or New Zealand, 0 otherwise, BP4 = 1 if Birthplace = Europe, 0 otherwise, BP5 = 1 if Birthplace = Asia, 0 otherwise, BP6 = 1 if Birthplace = Africa and Middle East, 0 otherwise, BP7 = 1 if the Birthplace is unknown, 0 otherwise

Table 7: Dependent Variable Dividend Payout Ratio

Intercept/N	BP2	BP3	BP4	PB5	BP6	BP7	POWN	AGE	ASSETS	ROA	YRCEO	YRFRM	FNDER	I	F/R2
44.17 4175	9.82 0.41	-10.16 -1.52	-24.26 -1.81*	13.40 0.72	3.78 0.15	-36.89 -2.15**								0	1.80* 0.0026
48.37 3481							-1.47 -6.29***							0	39.56*** 0.0112
14.87 4175								0.508 2.83***						0	8.02*** 0.0019
43.74 4175									-0.00001 -0.42					0	0.17 0.000
55.22 4097										-1.79 -11.01***				0	121.29*** 0.0288
49.04 4175											-0.651 -4.50***			0	20.22*** 0.0048
33.72 4173												0.44 4.53***		0	20.55*** 0.0049
46.48 4159													-31.21 -7.64***	0	58.31*** 0.0138
77.57 4079	16.35 0.70	-0.80 -0.12	-7.50 -0.58	6.49 0.35	6.11 0.24	-21.67 -1.27		0.074 0.35	-0.00004 -1.26	-1.74 -10.04***	-0.46 -2.42**	0.454 4.10***	-14.17 -2.96***	1	15.39*** 0.0804
74.82 3933	20.06 5.63***	-0.151 -0.02	-8.24 -0.53	-0.423 0.02	6.957 0.25	-13.774 -0.61	-0.479 -1.77*	0.0968 0.40	-0.00005 -1.28	-1.83 -8.95***	-0.411 -1.82*	0.5089 3.95***	-11.11 -1.93*	1	14.24*** 0.0921

Table 8: Dependent Variable Return on Assets

Intercept/N	BP2	BP3	BP4	PB5	BP6	BP7	POWN	AGE	ASSETS	PAYOT	YRCEO	YRFRM	FNDER	I	F/R2
4.49 4627	7.22 1.67*	2.09 1.84*	-0.211 -0.09	-0.933 -0.32	4.42 1.07	-5.05 -1.95*								0	1.88* 0.0024
4.35 3855							0.0133 4.711***							0	22.20*** 0.0057
6.24 4627								-0.0299 -0.99						0	0.97 0.0002
4.860 4627									-0.00002 -4.20***					0	17.60*** 0.0038
6.83 4097										-0.016 -11.01***				0	121.29*** 0.0288
4.26 4627											0.035 1.41			0	1.99 0.0004
4.39 4625												0.007 0.43		0	0.018 0.0000
4.45 4606													1.23 1.73*	0	2.98* 0.0006
6.70 3393	4.95 2.29**	0.32 0.52	0.22 0.17	-0.43 -0.24	2.54 1.10	2.38 1.28	0.077 3.42***	-0.033 -1.63	-0.00002 -4.96***	-0.01 -8.95***	-0.015 -0.79	-0.003 -0.27	0.51 1.07	1	35.70*** 0.2028
5.74 4604	4.36 1.01	0.99 0.88	0.64 0.29	-1.48 -0.50	1.47 0.35	-5.96 -2.27**		-0.055 -1.53	-0.00001 -1.96**		0.047 1.43	0.019 1.04	-0.39 -0.47	1	6.99*** 0.0325

CEOs from Central and South America paid out a larger percentage of firm earnings to owners than other CEOs. Finally, there was some evidence to suggest that Central and South America Born CEOs, and Australian and New Zealand born CEOs earned a higher return than other CEOs.

In general, the evidence presented here suggests that CEO's from differing cultural backgrounds might be expected to negotiate different compensation packages for themselves. Compensation Boards should be award of these cultural differences. Moreover, boards of directors should be aware that CEO's with different birthplaces are likely to favor different dividend policies. Boards of directors, and Chief Financial Officers should be aware of these tendencies in CEO's. Finally, boards of directors should be aware that CEO's from different cultural backgrounds may produce higher returns, and quite possibly higher risk, than others. These tendencies might be an important consideration when hiring a CEO.

With regard to the large number of appalled commentators who view the compensation of U.S. CEO's to be too high, the evidence here suggests that the U.S. cultural is not the driving force behind very large compensation packages. Indeed, the evidence here suggests that individuals born in other countries frequently earn more as the manager of a large U.S. company than their U.S. born counterparts. This line of literature might be extended with an examination of the compensation of U.S. born CEO's that manage firms overseas.

This paper extends the literature on a number of fronts. First, we extend the CEO compensation literature with the finding that CEOs with different birthplaces are compensated differently. Second, this study extends the capital structure and dividend policy lines of literature with the finding that CEOs with different birth places adopt different capital structures and have different dividend policies. Finally, the analysis extends the CEO performance literature with the finding that CEOs with varying birthplaces provide different returns to stockholders. Overall, the findings suggest there may exist a clientele effect with regard to managers, where managers with various cultural backgrounds can be expected to operate their firms differently. Given the findings of this study, additional research into the effects of CEO birthplace on firm management and performance is warranted. Such future work could resolve some of the limitations inherent in our analyses, or extend the work to analyze issues we did not explore in this paper.

This study is subject to several limitations. First, due to data limitations the birthplace was grouped by region. More precisely classifying the birthplace of the CEO may provide additional insights. In order to complete such an analysis, more data observations for each country of interest would be required. A second limitation of the study was that the birthplace of the CEO provided only the location of an individual at a specific point in time. The analyses here did not control for the amount of time the individual lived in the country of birth. It can be reasonably expected that an individual who leaves his/her country of birth in the first three months of his life would be less affected by the culture of the birth country than an individual who lives in his/her country of birth for 30 or 40 years. We could not examine this issue in this paper because only data on the birthplace was available. While this research is subject to several limitations, it provides a positive contribution toward understanding how CEO birthplace affects their compensation, as well as the way these CEOs may manage their firms.

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